Alan Buzacott
Senior Manager, Regulatory Affairs
1133 19th St. NW
Washington, DC 20036
(202) 887-3204

December 18, 2002

Via Electronic Filing

Marlene H. Dortch
Secretary
Federal Communications Commission
445 Twelfth St., SW
Washington, DC 20554

Re: WC Docket Nos. 02-202, 02-304, 02-317, 02-319, 02-340, Security Deposit Tariffs

Dear Ms. Dortch,

On December 17th, 2002, Richard Whitt and Alan Buzacott of WorldCom, Inc. (WorldCom) met with Tamara Preiss, Julie Saulnier, Judy Nitsche, Doug Slotten, and Kathy O'Neill of the Wireline Competition Bureau's Pricing Policy Division to discuss the Commission's investigations of LEC security deposit tariffs.

The attached presentation formed the basis of the discussion. As WorldCom explained in yesterday's meeting, the Commission should reject the ILECs' tariff transmittals because the Direct Cases filed in the above-captioned proceedings fail to meet the ILECs' burden of proof under section 204 of the Act.

Furthermore, there is no evidence that the ILECs require any protections in addition to those permitted by current tariffs. In particular, there is no evidence that the ILECs' uncollectible rate is higher than that of competitive carriers or that the ILECs have been more exposed to customer bankruptcies than competitive carriers.

Certainly, if the Commission does take any action to suggest that alternate forms of security (other than security deposits) might be reasonable, the Commission should make clear that such alternate forms of security are appropriate only if applied to customers that present a significant credit risk. Alternate forms of security – such as advance billing of switched access, accelerated payment schedules, or shortened notice periods – are burdensome to customers, and thus would not be reasonable if applied to the ILECs' customer base as a whole.

In its presentation, WorldCom also addressed proposals that purport to translate the existing "proven history of late payment" standard into a formula. The proposals of Verizon, SBC, and NECA to demand security deposits from any customer that fails to pay two monthly bills by the bill due date within a twelve-month period[1] are unreasonable because some customers, particularly larger carriers, may receive hundreds or even thousands of bills from each ILEC every month. For customers that receive such a large number of bills, two late payments in a year is plainly not a reliable indicator that those customers present a significant credit risk. That fact alone warrants rejection of the Verizon, SBC, and NECA tariffs.

[1] See, e.g., Ameritech Transmittal No. 1312, proposed original page 40.1.

AT&T's recent suggestion that the Commission could permit the ILECs to demand security deposits if the customer paid 10 percent of its bills late in two months out of twelve suffers from similar flaws. First, the most obvious deficiency of AT&T's proposed formula is that it can be triggered even if a customer's payments are "late" by only one day, even though such minor discrepancies are not indicators of credit risk. Commercial credit scoring tools generally attach significant weight only to those customer payments that are 30-, 60- or more days late. For example, the documentation for the Dun and Bradstreet credit scoring tool indicates only that risk is higher when payments are 31-60 or 61-90 days past due.[2] The possibility that the "two months/10 percent late" formula could be triggered by payments that are only slightly past due is particularly unreasonable in the telecommunications context, where customers often receive a large number of complex bills from each ILEC – and, particularly with paper bills, often do not receive those bills in a timely manner.

Second, "two months/10 percent late" does not represent a history of late payments that are significant in either frequency or amount. As an example, a customer with $1 million in monthly billings could trigger a security deposit request under that formula with two late payments of $100,000, or less than 1.7 percent of the customer's total annual bill of $12 million. In its capacity as a provider of wholesale telecommunications services, WorldCom generally views customers that pay over 98 percent of their annual billed charges on time as good customers, not credit risks.

In any event, there is no evidence in the record that provides any basis for the Commission to select, or take any action that would have the effect of selecting, the Verizon, AT&T, or any other "formula." Translating the existing "proven history of late payment" language into a formula requires complex statistical analysis of long-term ILEC customer payment data. Not only is that data not available to the Commission or any interested party, but analysis of that data would almost certainly show that a simple formula such as "two late payments of 10 percent or more" cannot accurately identify whether a customer presents a substantial credit risk. After all, the algorithms used in commercial credit scoring tools consider a much greater number of payment history factors and weight those factors in a far more sophisticated manner.[3]

Moreover, in WorldCom's experience as a provider of wholesale telecommunications services, customers whose financial condition presents a substantial credit risk tend to have a payment history characterized by more frequent or significant late payments than is represented by the "two months/10 percent late" formula. Two months of late payments in a year might signify a substantial credit risk, particularly if the payments were more than 30 days late, but only if the amount of those late payments represented all or substantially all of the billed amount. Similarly, a smaller late payment of 10 percent might signify a substantial credit risk, but only if such late payments occurred several times during the year.

Pursuant to Section 1.1206(b)(2) of the Commission's rules, this letter is being provided for inclusion in the record of the above-referenced proceedings. Please contact me at (202) 887-3204 with any questions concerning this letter.

Sincerely,

/s/ Alan Buzacott

Alan Buzacott

Attachment

cc: T. Preiss
J. Saulnier
D. Slotten

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[2] See, e.g., Dun & Bradstreet, "Understanding the D&B Commercial Credit Score," June 2002 at 11 (Attachment 2 to BellSouth Rebuttal in WC Docket No. 02-304).
[3] Id.

K. O’Neill
J. Nitsche
J. Goldstein
M. Brill
C. Libertelli
L. Zaina
S. Feder